

"A monthly survey of supply chain managers"

Welcome to our May report covering April survey results. Follow my daily comments at: www.twitter.com/erniegoss

What Does a Weak Dollar Mean to You?

Since last December, the value of the U.S. dollar has plummeted by 4.5 percent against a basket of global currencies. The Federal Reserve's (Fed) policy of ultra low interest rates facilitated by pumping dollars into the global economy along with trade deficits of roughly \$50 billion per month have pushed investors to trade their dollars for Euros, Yen, Pesos, and Reals. But how does this decline affect most U.S. consumers? First, it raises the price of foreign goods. Just last month, the price of imported goods to U.S. consumers soared by 2.2 percent. For example assuming price hikes are passed on to the consumer, the price of a BMW produced in Germany has risen by almost 10 percent in 2011 alone. Second, it increases the price of that foreign vacation. The price of a Brazilian hotel room has increased by 6.6 percent since December 2010. Third, it makes U.S. goods and services much more affordable for foreigners. For instance, the price of a bottle of Nebraska wine, or a Creighton education, has slumped by 5.5 percent for the Mexican consumer since December of last year. So all in all, a weak U.S. dollar produces both winners and losers. Ultimately though, the current weak dollar policy of the U.S. Federal Reserve will result in elevated U.S. inflation and higher interest rates coming as early as this July when the Fed ends its policy of buying long term U.S. Treasury bonds (QE2). So enjoy the party while it lasts. The Fed will be taking the punch bowl away in the months ahead producing new winners and losers. Ernie Goss

LAST MONTH'S SURVEY RESULTS

Mid-America Leading Economic Indicator Slides Again: Inflation Gauge Soars to Record Heights

SURVEY RESULTS AT A GLANCE

- Leading economic indicator drops for second straight month.
- Inflation gauge climbs to highest level since 1994.
- Almost half of respondents report that suppliers are adding transportation surcharges to deal with escalating energy costs.
- Supply managers expect prices for products and services they buy to increase at an annualized pace of 9.6 percent over the next six months.

For the first time since October of last year, the Business Conditions Index, a leading economic indicator for the nine-state Mid-America region, declined. However, it remained in a range pointing to positive but slowing economic growth for next three to six months. As in prior months, the April survey indicated soaring inflationary pressures at the wholesale level. Overall index: The index, a leading economic indicator that ranges between 0 and 100, slipped to 57.7 from 61.4 in March. This is the 17th consecutive month that the index has been above growth neutral 50.0. As higher agricultural commodity prices improve the outlook for firms linked to the farm sector, we are beginning to see high energy prices cut into economic growth. Employment: For the 16th straight month, the regional employment index remained above growth neutral though the April job reading slumped to 54.0 from March's very healthy 60.3. This month 16 percent of firms reported reductions in employment. This compares to 10.7 of firms

that indicated pullbacks in March employment. Growth in the regional labor market, while still positive, appears to be weakening.

Wholesale Prices: The prices-paid index, which tracks the cost of raw materials and supplies, soared to 94.0, a record high, from March's 88.0. Higher commodity prices, especially for energy products pushed our inflation gauge to its highest level since we initiated the survey in 1994. We continue to record unacceptably high inflationary pressures at the wholesale level. Even though the Federal Reserve (Fed) indicated it would end its buying of long-term U.S. Treasury bonds, quantitative easing 2 (QE2), this summer, I expect the Fed's record-low short-term interest rates to continue to weaken the dollar and push inflation above the Fed's comfort zone. This month we asked survey participants how their suppliers were dealing with higher energy prices. Approximately 28 percent indicated that their vendors had raised prices permanently, 14 percent reported temporary price increases and 48 percent indicated that supplying firms had added transportation surcharges. The remaining 10 percent reported other supplier reactions. Supply managers were also asked how much they expected the prices they pay for products and services to increase over the next six months. Approximately 39 percent anticipate growth of more than six percent over the next half year. Overall, an annualized upturn over 9.6 percent is expected. This is up from 6.6 percent in November of last year when we asked the same question.

Confidence: Looking ahead six months, economic optimism, as captured by the April business confidence index, sank to 57.5 from 65.8 in March. Higher energy prices are having a negative impact on supply manager's economic outlook. Supply managers said they expect escalating commodity prices to limit the current economic recovery. Inventories: For the 14th time in the past 15 months, supply managers in the nine-state region expanded inventory levels though the April inventory index slumped to 53.7 from 60.9 in March. The decline in inventory buildup of raw materials and supplies is another indication of the slippage in economic optimism among supply managers as they expect higher input prices to reduce economic growth and their firm's sales in the months ahead. Trade: An expanding global economy continues to boost regional trade numbers. Aided by a cheap dollar making U.S. goods more competitively priced abroad, April's new export orders index stood at a healthy 57.1 compared to March's 57.5. The region's import reading dipped to 56.1 from March's 58.1. The cheap dollar and a global economic expansion combined to boost sales and new orders from abroad.

Other components: Other components of the April Business Conditions Index were new orders at 59.5, down from March's 65.7; production or sales at 59.5, down from 63.0; and delivery lead time at 62.0, up from 57.2 in March.

MID-AMERICA STATES

ARKANSAS

The leading economic indicator for Arkansas from Creighton's monthly survey of supply managers advanced for the sixth time in the past seven months to a regional high of 74.7, up from March's 71.8. Components of the index for April were new orders at 86.5, production or sales at 87.0, delivery lead time at 69.0, inventories at 60.4, and employment at 70.5. An improvement in the state's economy has encouraged new entrants into the workforce. As a result, the state's unemployment rate has leveled off at an acceptably high rate. Based on our survey results over the past several months, I expect Arkansas' unemployment rate will trend downward over the course of the next six months.

IOWA

For the 16th straight month, Iowa's Business Conditions Index climbed above growth neutral. The index, a leading economic

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indicator from a survey of supply managers, climbed to 69.7 from March's 67.9. Components of the index for April were new orders at 79.4, production or sales at 71.9, delivery lead time at 69.0, employment at 65.1, and inventories at 63.1. The weak dollar has been especially good for Iowa's manufacturing sector particularly producers closely tied to international markets or agriculture. The weak dollar policy of the Fed will continue to bolster Iowa manufacturing and the overall state economy.

KANSAS

The Business Conditions Index from the monthly survey of supply managers rose to 58.4 from 55.1 in March. It is the eighth time in the past nine months that the leading economic indicator for Kansas was above growth neutral. Components of the index for April were new orders at 58.0, production or sales at 54.7, delivery lead time at 67.6, employment at 65.1, and inventories at 63.1. Firms tied to international markets and agriculture continue to report very healthy growth. However, aircraft and aerospace parts producers in the state report pullbacks in economic activity as higher fuel prices cut into sales and new orders.

MINNESOTA

Minnesota's leading economic indicator from the monthly survey of supply managers was above growth neutral for the 21st straight month at 60.9, down from 67.9 in March. Components of the index for April were new orders at 65.0, production or sales at 65.9, delivery lead time at 60.4, inventories at 57.2, and employment at 56.2. Durable goods manufacturing continues to benefit from healthy international sales and new orders. Computer and electronic component manufacturers and food producers also reported upturns in business activity for the month.

MISSOURI

The Missouri Business Conditions Index climbed above growth neutral to 57.2, but down from 59.8 in March. The index, a leading economic indicator based on a survey of supply managers continues to point to growth in the months ahead. Components of the Business Conditions Index for April were new orders at 56.1, production or sales at 58.1, delivery lead time at 61.2, inventories at 55.8, and employment at 55.0. Durable goods manufacturers are reporting much healthier business activity than nondurable producers. Food processing firms in the state report downturns in economic activity stemming from significantly higher input prices.

NEBRASKA

Nebraska's Business Conditions Index, a leading economic indicator, moved above growth neutral 50.0 for the sixth straight month. The index from a survey of supply managers slipped to 54.4 from March's 58.9. Components of the index for April were new orders at 56.7, production or sales at 56.0, delivery lead time at 54.7, inventories at 51.2, and employment at 53.6. The cheap dollar has been an important stimulant to the Nebraska economy. Firms tied to international markets or agriculture are experiencing rapidly improving business activity. The Fed's cheap dollar policy will continue to be an important component of the state's recent growth. Significantly higher input prices have yet to derail economic expansion among food processors in the state.

NORTH DAKOTA

The leading economic indicator from Creighton's monthly survey of supply managers for North Dakota once again climbed above growth neutral. The Business Conditions Index slipped to 56.1 from 56.3 in March. Components of the index for April were new orders at 54.7, production or sales at 49.5, delivery lead time at 69.5, employment at 42.0, and inventories at 64.7. North Dakota is benefiting from growth in both energy prices and agriculture commodity prices. As long as the dollar does not rebound, the

state's economy will continue on a solid growth path. The Fed weak dollar policy has been very positive for the state's economy.

OKLAHOMA

For the 17th straight month, Oklahoma's leading economic indicator climbed above growth neutral. The Business Conditions Index from a monthly survey of supply managers dipped to a still robust 68.8 from 76.1 in March. Components of the index for April were new orders at 74.3, production or sales at 71.2, delivery lead time at 76.8, inventories at 64.8, and employment at 57.1. High energy prices are fueling economic expansion in the state. Durable goods manufacturers linked to international markets or energy are experiencing solid growth. High input prices have failed to slow growth among food processors in the state. On the other hand, telecommunication firms in Oklahoma continue to experience pullbacks in economic activity.

SOUTH DAKOTA

South Dakota's leading economic indicator once again rose above growth neutral. The Business Conditions Index from a monthly survey of supply managers, dipped to a still healthy 61.2 from March's 64.5. Components of the index for April were new orders at 68.1, production or sales at 68.3, delivery lead time at 45.8, inventories at 56.1, and employment at 67.9. Manufacturers in the state tied to agriculture and international markets continue to report solid upturns in sales, new orders and jobs. This expansion will drive overall economic growth in the state in a positive direction for the next three to six months.



THE BULLISH NEWS

- In April the U.S. added 244,000 jobs yet the unemployment rate ticked up from 8.8% to 9.0%. But the good news outweighed the bad. The economy needs to add 144,000 jobs per month to keep the unemployment rate from rising.
- Oil prices declined to almost \$100 per barrel this week. In my judgment, the decline is due to a dip in the U.S. growth outlook.
- Our regional surveys and the national survey of supply managers for April indicate that economic growth for the next 3-6 months will be positive with positive hiring.
- US retail sales grew strongly in April. Sales were up 8.7% from a year ago at stores open at least 12 months, equaling the largest monthly gain in the past 11 years.



THE BEARISH NEWS

- Retail sales excluding gasoline increased only 0.2% for April. This is unacceptable and indicates consumer pessimism and higher fuel prices are cutting U.S. growth.
- The price of U.S. imported goods rose by 2.2% in April.
- The Greek government is toying with the idea of restructuring its debt or withdrawing from the Eurozone rather than facing up to cutting its government spending. Ultimately France and Germany will forge a bailout deal that only delays Greece's day of reckoning.
- The Producer Price Index rose 0.7% in March. This advance

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followed a 1.6% increase in February and a 0.8% gain in January.

- Our April survey of supply managers indicated that almost half have suffered transportation surcharges on their purchases for the month.
- US house prices for Q1, 2011 suffered their biggest quarterly fall since the collapse of Lehman Brothers.

WHAT TO WATCH

- Retail sales: The U.S. Census Bureau releases retail sales for May on June 14. Non-fuel purchases will be a gauge of the U.S. consumer. Any weakness will be bullish for bond prices and tend to push interest rates down.
- Jobs: On Friday June 3, the U.S. BLS will release the employment report for May. Another positive increase in the unemployment rate will be bullish for bond prices and negative for stocks pushing interest rates lower.
- Housing: On June 1, the U.S. Census Bureau will release housing statistics for April. Also keep an eye on the Case-Shilling index for March 2011 released around May 26. We economists are paying close attention to the consumer in terms of how he/she is spending.

THE OUTLOOK

FROM GOSS:

- Housing as a percent of GDP peaked in 1980 at 19%. In 2005 as the housing bubble was set to pop it represented 18.5%. Today it stands at 15%, still a large piece of the economy. If you are willing to hold for 4-5 years, U.S. housing is a great value today to both investors and consumers (buy low-sell high).
- The U.S. economy is experiencing a hiccup in growth; not a recession but a significant slowdown in growth from the last quarter of 2010. I expect annualized U.S. GDP growth for Quarter II, 2011 will be less than 2.0 percent (similar to Quarter I).
- U.S. global firms will continue to earn a large share of their earnings outside the U.S.

NATIONAL ASSOCIATION FOR BUSINESS ECONOMICS (NABE) SURVEY:

- “NABE’s April 2011 Industry Survey makes clear that despite geopolitical concerns, higher oil prices, and uncertainties created by the disasters in Japan, the economy continues to recover,” said Shawn DuBravac, Consumer Electronics Association. “Job creation in the quarter, as well as the outlook for the next six months as measured by the number of firms increasing headcount, is stronger than we’ve seen in the entire survey history dating back to 1982. Supporting this growth, both recent results and the outlook for sales and profit margins continue to improve. Companies appear to be positioning themselves for a firming economic environment by increasing capital expenditures. At the same time, risks remain present. NABE survey respondents view the Japanese disasters as a net negative. The survey findings reflect early signs of inflationary pressure as more firms raised prices last quarter and also expect to raise them in the coming quarter.”

Stan Humphries:

- Chief economist at Zillow. “Rising foreclosures and high negative equity rates make it almost certain that we won’t see a bottom in home values until 2012 or later.”

Goss Eggs (Recent Dumb Economic Moves)

- This is the dumbest economic action of the last 10 years. The National Labor Relations Board (NLRB) filed a complaint last month to block Boeing’s plan to build the company’s 787 Dreamliner at a new assembly plant in South Carolina. The NLRB is attempting to force Boeing to build the plane in Washington where workers must join the union as opposed to South Carolina, a right to work state.

SUPPLY MANAGER READING ROOM

“Six Sigma Approach to Exchange Rate Management,” Looking at exchange rate management as a process brings some insight to the vexed question can we ever manage the currency exchange fluctuations and levels? In industrial production and business processes, output variation as compared to customer specification is treated as the enemy to be controlled. There are many tools and techniques to identify, control and monitor variations in processes. Among those, Six-Sigma has come to occupy a leading position for quite sometime. The popularity may be probably due to the robust methodology and breakthrough improvement opportunities arising from its deployment. http://www.icaei.org/resource_file/96581637-1639.pdf

SUPPLY MANAGER CAREERS

Commodity Specialist, OGE Energy Corporation, Oklahoma City, OK. Provides specialized expertise to ensure that supplier agreements are properly negotiated, drawn up, and executed. Provide comprehensive support, consulting services, and training for OGE businesses, product line management, and others within OGE for the purpose of developing and implementing contract programs, policies, and processes designed to increase sales, enhance supplier relationships, and improve customer satisfaction. Strategic thought-leader responsible for market analysis, strategic direction and managing execution of all aspects related to sourcing and contracting for a portfolio. This position will primarily support Facilities, Smart Grid Information Technology, and Safety areas. Bachelors Degree or equivalent Five (5) years directly related experience in supply chain/purchasing Experience in commodity management, contract negotiations (specifically beginning to end negotiation of a contract) and contract administration as well as supplier relationship management Proficiency in MS Office Suite (Word, Excel, PowerPoint, Access) Contact Matt Thompson THOMPMA@OGE.COM

ASK ERNIE

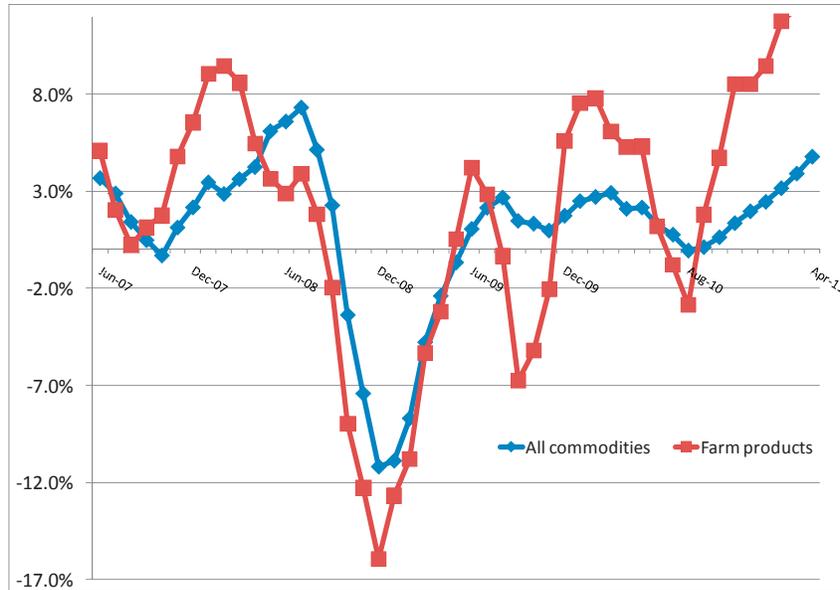
If you have any questions about the survey or have any specific questions about the recent economic conditions, please write to Ernie at ernieg@creighton.edu.

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PRICE DATA

ALL COMMODITIES/FARM PRODUCTS 2007-2011
 FUELS & RELATED/METALS & METAL PRODUCTS

Price changes, 3 month moving average, 2007-2011



Price changes, 3 month moving average, 2007-2011

